

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

Applicant:	Northern California Retired Officers Community dba Paradise Valley Estates (PVE)	Amount Requested:	\$55,000,000
		Loan Term:	25 years
		Date Requested:	October 31, 2002
Location:	Fairfield, California Solano County	Resolution Number:	F-295
Project Site:	2600 Estates Drive, Fairfield, CA		
Facility Types:	Continuing Care Retirement Community		

Uses of Bond Proceeds: The majority of bond proceeds will be used to current refund the outstanding principal of variable rate tax-exempt debt issue by CSCDA in 1996 to finance the original construction of Paradise Valley Estates. Proceeds will also be used on a variety of capital expenditures to upgrade the facility. There are no expected savings resulting from this refunding.

Type of Issue:	Public Offering, Fixed Interest Rate
Credit Enhancement:	Cal-Mortgage Insurance (Expected approval on Nov. 7, 2002)
Expected Credit Rating:	A+ (S&P), based on Cal Mortgage Insurance
Senior Underwriter:	UBS PaineWebber Inc.
Bond Counsel:	Orrick, Herrington & Sutcliffe

Financial Overview: PVE's operating results improved dramatically in fiscal year 2001 providing a positive \$2.1 million in net income. Due to substantial start-up costs experienced by PVE during the first few years, the unrestricted net assets balance is currently a negative \$13.7 million.

Sources of Revenue (12/31/01):	<u>Amount</u>	<u>Percent</u>
Resident services	\$10,781,978	55.3%
Amortization of entrance fees	4,645,435	23.8%
Health center services	3,194,778	16.4%
Investment income	757,682	3.9%
Other income	<u>104,302</u>	<u>.6%</u>
Total	<u>\$19,484,175</u>	<u>100.0%</u>

<u>Sources of Funds:</u>		<u>Uses of Funds :</u>	
Bond proceeds	\$55,000,000	Current Refunding	\$45,800,000
Equity funds	503,000	Debt Service Reserve	4,500,000
		Capital Expenditures	1,000,000
		Financing/Other costs	<u>4,203,000</u>
Total Sources	<u>\$55,503,000</u>	Total Uses	<u>\$55,503,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for Paradise Valley Estates, in an amount not to exceed \$55,000,000, subject to a final Cal Mortgage Insurance commitment.

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY,
dba PARADISE VALLEY ESTATES (“PVE”)**

STAFF SUMMARY AND RECOMMENDATION

October 31, 2002
Resolution Number: F-295

I. PURPOSE OF FINANCING: PVE issued bonds in 1996 through the California Statewide Communities Development Authority (“CSCDA”) to construct its continuing care retirement community. The bonds were issued in a variable rate mode with a letter of credit from the Bank of Scotland. Due to the significant restrictions the letter of credit places on PVE, PVE desires to current refund its 1996 bonds and convert its debt to fixed rate. No savings are anticipated with this refunding. In addition, PVE intends to upgrade various equipment and provide certain facility improvements.

Current Refunding..... **\$45,800,000**

Bond proceeds will be used to current refund the outstanding principal of variable rate tax-exempt debt issued in 1996 through CSCDA to finance the original construction of PVE. The bonds were issued in the amount of \$93.2 million with approximately \$45.6 million remaining outstanding as of June 30, 2002.

Capital Expenditures **1,000,000**

PVE will use bond proceeds to purchase equipment and upgrade the facility. PVE will purchase computers, software, treadmills and wheelchairs. PVE will also upgrade its facility, including new floor coverings, sidewalks and security upgrades.

Debt Service Reserve Fund **4,500,000**

Financing Costs **4,203,000**

Original Issue Discount.....	\$1,218,500
Cal Mortgage Premium and Fees.....	1,900,000
Financial Advisor.....	150,000
Counsel Fees	160,000
Underwriters Discount	577,500
Other Costs.....	197,000

Total Uses of Funds **\$55,503,000**

Financing Structure:

- Public Offering, Fixed Interest Rate
- 25 year maturity date
- Credit Enhancement – Cal Mortgage Insurance
- Expected Credit Rating: A+ (S&P), based on Cal Mortgage Insurance
- Debt service reserve fund
- General obligation & gross revenue pledge
- Financial covenants acceptable to Authority in accordance with guidelines for “A” rated financings.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Northern California Retired Officers Community (dba Paradise Valley Estates) Statement of Operations (Unrestricted)

	9 months ending Sept. 30 2002 (Unaudited)	2001	Year Ended December 31,	
			2000	1999
Revenues				
Resident services	\$ 8,456,368	\$ 10,781,978	\$ 9,196,235	\$ 7,222,709
Health center services	2,244,912	3,194,778	3,324,687	2,269,598
Amortization of entrance fees	4,119,104	4,645,435	3,973,811	2,854,987
Investment income	296,686	757,682	1,317,587	1,251,184
Other income	41,855	104,302	48,728	73,162
Total revenues	<u>15,158,925</u>	<u>19,484,175</u>	<u>17,861,048</u>	<u>13,671,640</u>
Expenses				
Resident services	2,084,550	1,437,830	1,179,488	1,035,316
Maintenance	612,408	2,012,037	1,947,400	1,852,053
Dining services	2,234,590	2,807,696	2,569,114	2,292,346
Health center	2,816,681	3,278,400	3,085,302	2,956,025
General and administrative	1,355,535	2,267,084	2,379,659	2,214,544
Depreciation & amortization	2,386,205	3,021,662	3,032,584	2,909,985
Interest	1,461,669	2,321,872	4,293,936	4,366,279
Other expenses	-	226,706	-	-
Total expenses	<u>12,951,638</u>	<u>17,373,287</u>	<u>18,487,483</u>	<u>17,626,548</u>
Increase (decrease) in unrestricted net assets	2,207,287	2,110,888	(626,435)	(3,954,908)
Deficiency in unrestricted net assets, beginning of year	(13,762,600)	(15,873,488)	(15,247,053)	(11,292,145)
Deficiency in unrestricted net assets, end of year	<u>\$ (11,555,313)</u>	<u>\$ (13,762,600)</u>	<u>\$ (15,873,488)</u>	<u>\$ (15,247,053)</u>

Northern California Retired Officers Community (dba Paradise Valley Estates)
Statement of Financial Position

	9 months as of Sept. 30 2002 (Unaudited)	2001	As of December 31, 2000 1999	
ASSETS:				
Cash and cash equivalents	\$ 1,258,327	\$ 1,170,472	\$ 649,426	\$ 848,604
Assets whose use is limited				
Cash and Investments	14,407,719	12,857,796	18,324,202	22,333,136
Accounts and notes receivable	1,440,996	2,297,927	3,616,104	3,877,381
Prepaid expenses	431,566	419,927	564,852	679,814
Inventory and other current assets	60,606	67,309	72,002	48,554
Property and equipment, net	64,774,441	65,740,991	68,105,984	70,160,574
Intangible assets, net	3,289,179	3,637,763	4,188,875	4,603,653
Deferred financing costs, net	4,031,796	4,072,062	3,899,010	4,051,912
Total assets	<u>\$ 89,694,630</u>	<u>\$ 90,264,247</u>	<u>\$ 99,420,455</u>	<u>\$ 106,603,628</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 914,664	\$ 752,954	\$ 1,144,858	\$ 886,072
Accrued interest	52,011	48,519	150,313	254,753
Other current liabilities	-	-	1,125,604	977,500
Certificates of participation, net of discount	45,617,323	46,911,554	56,103,862	69,296,171
Line of credit	-	-	655,484	655,484
Deferred revenues:				
Refundable entrance fees	7,038,283	6,848,415	8,492,509	9,074,474
Unearned entrance fees	47,533,082	49,370,826	47,621,313	39,879,692
Other accrued liabilities	94,579	94,579	-	826,535
Total liabilities	<u>101,249,942</u>	<u>104,026,847</u>	<u>115,293,943</u>	<u>121,850,681</u>
Deficiency in unrestricted net assets	<u>(11,555,312)</u>	<u>(13,762,600)</u>	<u>(15,873,488)</u>	<u>(15,247,053)</u>
Total liabilities and deficiency in net assets	<u>\$ 89,694,630</u>	<u>\$ 90,264,247</u>	<u>\$ 99,420,455</u>	<u>\$ 106,603,628</u>
	Proforma (a)			
	2001	2001	2000	1999
Debt Service Coverage Ratios (x)	1.21	0.66	0.37	0.25
Debt/Unrestricted Net Assets (x)	(4.00)	(3.50)	(3.53)	(5.44)
Margin (%)		10.83%	-3.51%	-28.93%
Current Ratio (x)		2.72	0.91	0.36

(a) Based on adding projected new debt to the 2001 financial results.

Financial Discussion:

PVE's operating results improved dramatically in fiscal year 2001 providing a positive \$2.1 million in net income.

Operating results have improved primarily from higher occupancy rates experienced since PVE's start-up on November 15, 1997. During fiscal years 1999, 2000, 2001, average occupancy grew to 67%, 89%, and 94% respectively. Consequently, revenues have increased by 43% from 1999 to 2001. PVE's operating result have improved from a nearly \$4 million loss in 1999 to \$2.1 million in net income in 2001, largely due to the revenue increases coupled with a reduction in operating expenses. The improved operating results have continued during the 9-month interim period ending September 30, 2002, with \$2.2 million in net income.

PVE experienced significant operating losses during the first two fiscal years of our review due to substantial start-up costs associated with opening a new facility. However, PVE has continued to generate positive cash flows over the last three years, ranging from \$7 to \$10 million and management anticipates this trend to continue. PVE has increased its monthly fees by 3.5% and entrance fees were increased 3% to 8%. There is currently a waiting list of approximately 50 people so the demand for services is steady.

An independent feasibility study (as required by Cal-Mortgage) prepared for the refunding of PVE's debt was completed in July 2002. The feasibility study projects that future operating results will remain favorable, with net income ranging from \$2.6 million to \$4 million over the next five years.

Due to substantial start-up costs experienced by PVE during the first few years, the unrestricted net assets balance is currently a negative \$13.7 million.

Because of the significant start-up costs associated with opening the new facility, PVE's unrestricted net assets balance is a negative \$13.7 million. PVE has not been able to further build its cash reserves since the existing letter of credit provider, the Bank of Scotland, is allowed to "sweep" PVE's cash in order to reduce its risk and retire debt. As a result, PVE has paid down its long-term debt on a significantly accelerated schedule (over \$46 million in less than 5 years) but which has weakened its cash position.

Current debt service coverage for fiscal year 2001 is 0.66x. With this current refunding, the proforma debt service coverage will be an acceptable 1.21x. The improved debt service coverage relates to the reduced annual debt service payment from \$11.3 million to \$4.2 million with this financing.

Nonetheless, PVE will remain highly leveraged following this financing, with a proforma debt to unrestricted net assets ratio of a negative 4.0x. However, given the significant increases in revenues and reduction in operating costs over our review period, and the significant reduction in debt service payments that will result from this financing, staff is confident PVE's balance sheet will further strengthen. Management projects a positive unrestricted net asset balance by 2007 given the recent financial operating results.

III. ORGANIZATION

Background

Northern California Retired Officers Community dba Paradise Valley Estates was incorporated as a California nonprofit public benefit corporation in 1992 to provide retired uniformed services officers, their spouses, widows and widowers with housing facilities and care services specifically designed to meet their physical, social, recreational and psychological needs. PVE is a continuing care retirement community located in Fairfield, California. The mission of PVE is to provide the highest quality of retirement living to elderly persons by promoting services, amenities, and health care that nurtures independence, promotes wellness and preserves dignity.

Governance

PVE is currently governed by a 9-member Board of Directors (the “Board”), which live throughout northern California and serve without compensation. Pursuant to PVE’s bylaws, the Board must consist of an odd number of not less than 5 and not more than 15 members. Each member holds office for a three-year term and/or until a successor is elected, and none may be a resident of PVE.

Licenses

PVE is licensed by the State of California Department of Social Services (“Social Services”) as a residential care facility for the elderly (an “RCFE”). The skilled nursing facility (“SNF”) is licensed by the California Department of Health Services. PVE is a member of the American Association of Homes and Services for the Aging and a member of the California Association of Homes and Services for the Aging.

Competition

Management of PVE has prepared the following description of the primary current competition for the facility, and future competition expected to result from the construction of new facilities or expansion of existing facilities. The information listed on the next page refers to “IL” to represent independent living units, “AL” to represent assisted living units and “SNF” to represent skilled nursing beds. PVE has estimated the current occupancy of its competitors based on telephone calls to its competitors made in October 2002.

Name of Facility	Location	Miles from the Facility	Number of Units	Fee Type	Independent Living Occupancy
University Retirement Community	Davis	28	IL 200 AL 47 SNF 37	Entry Fee and Monthly Fee	100%
Spring Lake Village	Santa Rosa	49	IL 300 AL 10 SNF 50	Entry Fee and Monthly Fee	99%
Eskaton Village	Carmichael	56	IL 283 AL 38 SNF 30	Entry Fee and Monthly Fee	100%
Airforce Village West	Riverside	452	IL 405 AL 46 SNF 79	Entry Fee and Monthly Fee	99%

IV. UTILIZATION STATISTICS:

	2002(9 mo.)	2001	2000	1999
Residential Living				
Average Available Units	327	327	327	327
Average Occupied Units	312	318.5	291	231.5
Average Occupancy	95.4%	97.4%	89.0%	70.8%
Assisted Living				
Average Available Units	28	28	28	28
Average Occupied Units	25.0	25.0	24.2	18.2
Average Occupancy	89.3%	89.3%	86.4%	65.0%
Skilled Nursing				
Average Available Units	60	60	60	60
Average Occupied Units	54.0	55.6	65.4	40.9
Average Occupancy	90%	92.7%	90.7%	68.2%
Percentage of Revenues				
Residential Living	76%	77%	73%	76%
Asst. Living & Skilled Nursing	24%	23%	27%	24%
	100%	100%	100%	100%

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

The tax exempt financing for this project will allow the corporation to issue the bonds at reduced interest rates. The resulting savings will allow the new facility to generate a positive cash flow that can be used to support the needs of the Paradise Valley Estates residents including the provision of care at reduced costs.

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

PVE has submitted a completed Physician's list and a completed Certification and Agreement Regarding Community Service Obligation with its application as required by the Act.

VII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/01 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CSCDA Bond Series 1996	\$92,300,000	\$46,911,554	\$0
Proposed:			
CHFFA, Bond Series 2002	55,000,000		55,000,000
TOTAL DEBT		<u>\$46,911,554</u>	<u>\$55,000,000</u>

(a) Includes current portion.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for Paradise Valley Estates in an amount not to exceed \$55,000,000, subject to a final Cal Mortgage Insurance commitment.